U.S. Department of the Treasury

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Importance of Financial Education
Association for Financial Counseling and Planning Education
Military Pre-Conference
November 17, 2008

Importance of Financial Education

- Big Picture
- Case Studies in Financial Education: Building a Lesson from a Headline
- Federal Resources
- 10 Pieces of Advice
- What's Next in Financial Education?

Big Picture

Situation

- Choices
  - The market place is increasing the number of choices
- Knowledge
  - Needs to catch up

Our Choices Have Outpaced Our Knowledge

Big Picture

General Population Facts

- Subprime mortgages with adjustable rates, which currently accounts for about two-thirds of subprime mortgages, has reached an 11% rate of serious delinquencies.[1]
- Over the course of your lifetime you will save about a quarter of a million dollars in interest if you have good credit versus bad credit.[2]
- Thirty-three percent of Americans did not know that potential employers could use credit reports when making hiring decisions.[3]
- Sixty percent of Americans are behind in saving for retirement.[4]

[1] Mortgage Bankers Association Quarterly Survey, 2006
[2] Andrea Coombes, "Improving credit can save," CBS MarketWatch, January 13, 2004
[3] Credit Reporting Literacy: consumers Understood the Basics but Could Benefit from Targeted Educational Efforts, U.S. Government Accountability Office, March 2005
[4] Prudential Retirement Survey, "JP Morgan Unit takes steps to boost 401k participation", American Banker, by Steve Garmhausen, June 6, 2005

Big Picture

Military Personnel Facts

- 97 percent of survey respondents said that it was important to them that they become more knowledgeable about saving and investing.[5]

- Only 29 percent of military personnel who currently invest received a passing grade on a basic financial literacy quiz.[6]

- According to a 2006 DOD report, predatory lending practices are prevalent and target military personnel, either through proximity and prevalence around military installations, or through the use of affinity marketing techniques, particularly on-line.[7]

[5] Financial Industry Regulatory Authority (FINRA) Formerly - NASD Investor Education Foundation - 2005
[6] Financial Industry Regulatory Authority (FINRA) Formerly - NASD Investor Education Foundation - 2005
[7]Report On Predatory Lending Directed at Members of and Their Dependents, United States Department of Defense, 08/09/06

Big Picture

10 Key Issues –

General Saving

Statistic

- In 2005 the US Personal Savings Rate was -0.5% [8]

Cause

- People receive many more messages to consume than to save.

[8]Department of Commerce, Bureau of Economic Analysis, 2005

Big Picture

10 Key Issues – Homeownership

Statistic

- Since July of 2006 foreclosures have risen sharply in the United States [9]

Cause

- Homeownership is a complex process. With homeownership education comes knowledge which allows people to understand the types of mortgages they are signing.

[9] RealtyTrac, Survey, July 2007

Big Picture

10 Key Issues – Retirement Saving

Statistic

- Only 31% of eligible employees aged 18-25 participate in their employers' defined contribution plan at work. [10]

Cause

- Many young people do not see the advantage of saving for retirement.

[10]Hewitt Associates study qtd. in Michelle Singletary, "A Good Place to Start," *The Washington Post*

Big Picture

10 Key Issues –

Credit

Statistic

- Consumers with good credit ratings pay $250,000 less in interest payments over the course of their work life than people with bad credit [11]

Cause

- Consumers do not adequately understand the importance of having good credit. Bad credit raises the cost of borrowing. It can also prevent people from getting a car loan, renting an apartment and even getting hired for a job.

[11] Andrea Coombes, "Improving credit can save," CBS MarketWatch, January 13, 2004

Big Picture

10 Key Issues –

Consumer Protection

Statistic

- Nearly 10 million people in the United States are victims of identity theft each year [12]

Cause

- There are a large number of circumstances when fraud can occur. One of the best forms of consumer protection is consumer knowledge.

[12] FTC, Consumer Fraud in the United States, 2004

Big Picture

10 Key Issues –

Investor Protection

Statistic

- 40% of investors say they know what they need to know to make good decisions while investing. [13]

Cause

- Many people do not avail themselves of free, unbiased investor education information which can help them understand market fluctuations, avoid fraud and manage investment fees.

[13] SIA, Annual SIA Investor Survey, 2004

Big Picture

10 Key Issues –
Taxpayer rights

Statistic

- The IRS estimates that nearly 25% of people who qualify for a tax credit don't claim the credit [14]

Cause

- Some people are not aware of benefits offered by the federal government, or do not understand them, and therefore do not access these benefits.

[14] IRS, http://www.irs.gov/newsroom/article/0,,id=106429,00.html, 2005

Big Picture

10 Key Issues –
The Unbanked

Statistic

- Nearly 10% of US households do not have a transaction account with a depository institution. [15]

Cause

- Lack of trust in financial institutions, lack of knowledge about the financial system and cultural differences can all cause consumers to use financial service providers that may charge higher fees.

[15] Braunstein, S & Welch, Financial Literacy: An Overview of Practice, 2002

Big Picture

10 Key Issues –
Multicultural Populations

Statistic

- Minority populations tend to have lower rates of homeownership and lower rates of usage of mainstream financial services. [16]

Cause

- Cultural and language barriers can present special challenges to some consumers.

[16]US Census Bureau, 2005

Big Picture

10 Key Issues –
K-Postsecondary Financial Education

Statistic

- A 2006 financial literacy test given to high school seniors revealed that the average score was a 52.4%. [17]

Cause

- Not enough parents/guardians or schools teach financial literacy topics to young people, requiring them to learn financial lessons through trial and error instead.

[17] Jump$tart Survey, 2007

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Case Study # 1: The stock market

- Good Tip: Take the long view
- Better Lesson: Have respect for market fluctuations
- Diversification
- Dollar-cost averaging
- Investment horizons
- Periodic rebalancing of portfolio

Case Study # 2: Failure of Financial Institutions

- Good Tip: Your money is safe in an insured bank/credit union
- Better Lesson: Pay attention to your savings/checking account
- find out if the institution is insured and to what extent your savings are insured
- what rate are you getting
- what is the minimum balance
- what fees are you paying that you don’t need to
- overdraft protection, how does it work

Case Study #3: Real Estate Market

- Good Tip: Work with lender to avoid foreclosure
- Better Lesson: How to control other expenses to keep current with mortgage
- Budgeting
- Cost-cutting
- Scale back non-essential spending

Case Study #4: Public Service Announcement

Three Lessons Learned
(and Misapplied)

1. Student debt is ok because college/trade school pays for itself

   -All debt is ok regardless of type, terms or amount

2. The future is bright

   -I'll be rich and have no expenses

3. Hard work is good

   -I can always earn my way out of over-consumption

Case Study #4 (continued): Public Service Announcement

- Can’t be judgmental
- Peer learning is best
- Discovery/surprise
- Entertain me
- Five years = forever
- Consumerism is gravity
- Government is trusted source

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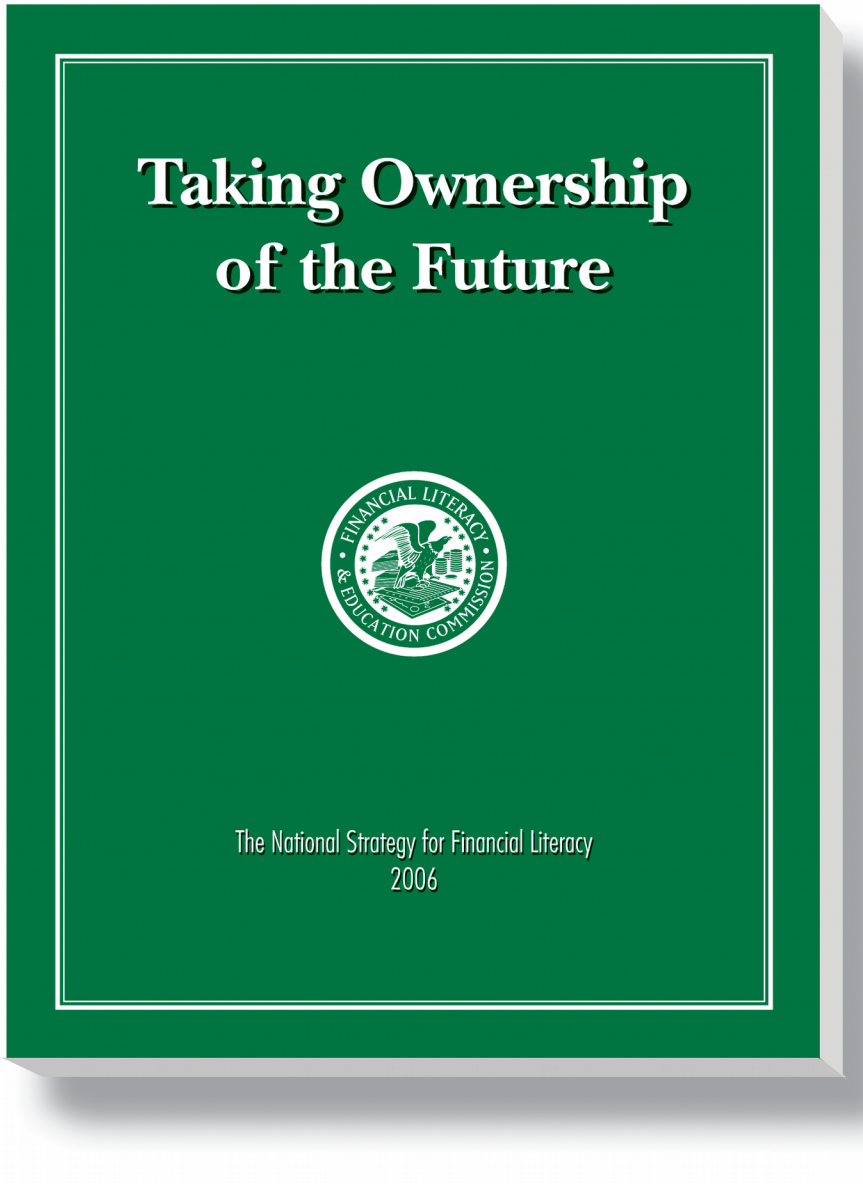
Taking Ownership
of the Future
FINANCIAL LITERACY
& EDUCATION COMMISSION
The National Strategy for Financial Literacy
2006

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Technical Assistance Center

www.treasury.gov/ofe

(202) 622-9372

This e-mail address and telephone number will put you in touch with Treasury's Financial Education Technical Assistance Center

The Center will help you establish or enhance financial literacy programs in your community

Department of Treasury
Office of Financial Education
Technical Assistance Center

Please Contact Us With Questions About Personal Finance Matters or Financial Education Programs

www.treasury.gov/financialeducation *or* (202) 622-9372

Eight Elements of A Successful Financial Education Program

Content

1. focuses on ***basic savings, credit management, home ownership*** and /or ***retirement planning***.
2. is ***tailored to its target audience,*** taking into account its language, culture, age and experience.

Delivery

3. is offered through a ***local distribution channel*** that makes effective use of community resources and contacts.
4. ***follows up with participants*** to reinforce the message and ensure that participants are able to apply the skills taught.

Impact

5. ***establishes specific program goals*** and uses performance measures to track progress toward meeting those goals.
6. ***demonstrates a positive impact on participants' attitudes, knowledge or behavior*** through testing, surveys or other objective evaluation.

Sustainability

7. ***can be easily replicated*** on a local, regional or national basis so as to have broad impact and sustainability.
8. is ***built to last*** as evidenced by factors such as continuing financial support, legislative backing or integration into an established course of instruction.

TIPS FOR BUILDING WEALTH

Pay yourself first by making saving a priority over optional spending.

Track all your expenses for a full month, separate needs from wants and create a budget based on what you find factoring in savings. Stick to that budget.

Set specific but achievable long-term savings goals for major purchases like a home, education, retirement and healthcare expenses.

Benefit from the power of compound interest by saving as much as you can as early as you can in your career, particularly through employer-based retirement programs which may include an employer match.

Benefit from tax advantages which allow you to build savings tax free for specific purposes like retirement, education and healthcare.

TIPS FOR MANAGING CREDIT

Build savings to avoid having to use high-interest sources of credit and to provide a cushion for emergencies.

Pay bills on time to help maintain a good credit score, since your credit score can impact your ability to obtain credit, employment, insurance and housing.

Pay more than the minimum payment to reduce or avoid finance charges, whenever possible.

Comparison shop for new credit, but obtain only the credit you need. Negotiate with existing creditors for the best available deal.

Get a free credit report at least once a year to help manage your credit and to look for instances of identity theft. (www.annualcreditreport.com).

www.flecnationalnetwork.org

NATIONAL FINANCIAL EDUCATION NETWORK DATABASE FOR STATE & LOCAL GOVERNMENTS

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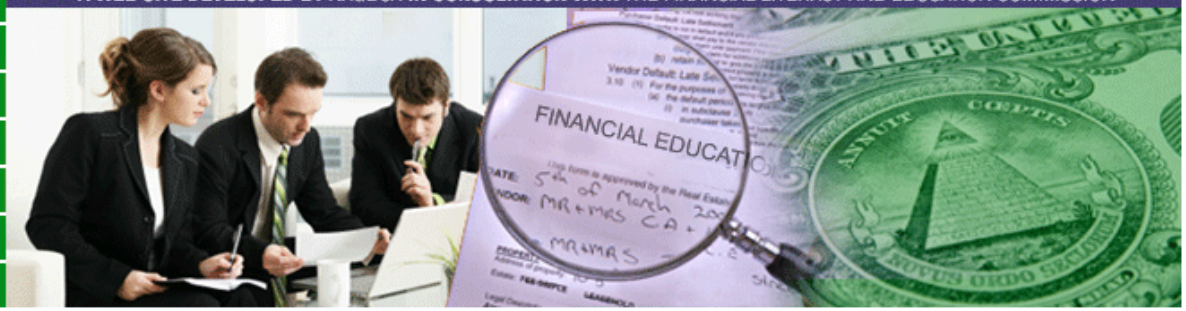
HOME
SEARCH
BROWSE
SUBMISSIONS
GUIDELINES
ABOUT US
FEEDBACK

A WEB SITE DEVELOPED BY *NAGDCA* IN CONSULTATION WITH *THE FINANCIAL LITERACY AND EDUCATION COMMISSION*



Quick Search
Keywords:

Topics Addressed:
- Consumer Protection
- Credit
- General Saving
- Homeownership
- Insurance
- Investor Protection
- Program Evaluation
- Retirement
- Taxes and Budget

Welcome!

The National Financial Education Network Database for State and Local Governments Web site was developed by the National Association of Government Defined Contribution Administrators (NAGDCA) in consultation with the Financial Literacy and Education Commission's National Financial Education Network (Network).

The Web site is comprised of materials submitted by the members of the Network to provide resources on financial literacy to the general public. Click here for a list of Network members.

The database provides links to resources which are hosted on other organization's Web sites. Please note that by clicking on the link of a resource you will be leaving the Network Web site.

Thank you for visiting our Web site!

PRESIDENT'S ADVISORY COUNCIL
ON FINANCIAL LITERACY

National Financial Literacy Challenge
(For any teachers you know)

- http://FLC.treas.gov/teacher
- Recognition program which rewards high school students for meeting certain standards developed by the Council
- Web-based voluntary test
- 50 Minutes
- Testing window: November 3 – November 26

www.ControlYourCredit.gov

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General Advice

1) *Define your role: Avoid the imperative of centrality*
2) *Examine your orientation: Learning versus teaching and marketing versus selling*
3) *Ask the difficult question: Is anyone listening? (the quest for relevancy)*
4) *Identify your allies: Non-profits and government agencies can be helpful*

General Advice

5) Timing is everything: ***Seize the teachable moment***
6) Refine & pose your questions: ***More research needed***
7) Go with a proven winner: ***Everyone is watching***
8) Include youth and adults: ***The bell tolls for thee…***

General Advice

9) Appreciate the “trust factor”: ***Teach fact, not fear. The goal is a skeptical, not cynical, consumer***

10) Take a trip to the field: ***Never trust a gardener or an auto mechanic with clean hands***

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What's Next in Financial Education?

- Behavioral Economics
- Greater Emphasis on Program Evaluation
  - Longitudinal
  - Conduct-focused
- More Research
- Experiential Learning
- Relationship Finance

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